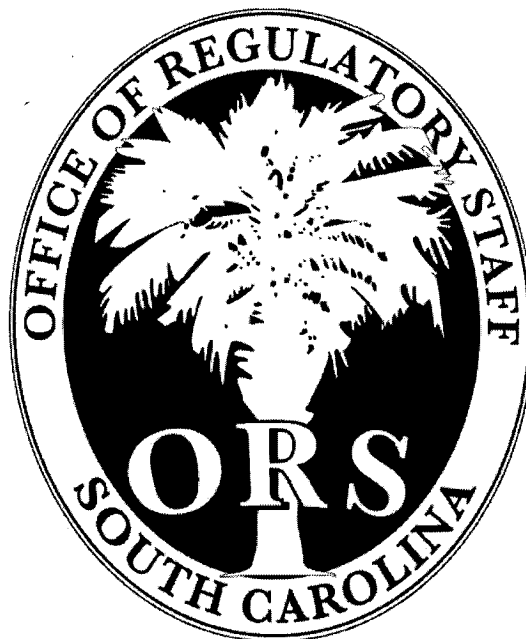


**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY AND EXHIBITS**  
**OF**

**Jacqueline R. Cherry**



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**DOCKET NO. 2006-1-E**  
**Carolina Power & Light Company dba**  
**Progress Energy Carolinas, Inc.**  
**Annual Review**

**TESTIMONY OF JACQUELINE R. CHERRY****FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2006-1-E****IN RE: CAROLINA POWER & LIGHT COMPANY****d/b/a PROGRESS ENERGY CAROLINA'S INC.**

**Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Jacqueline R. Cherry. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff ("ORS") in the Audit Department, as an Audit Manager.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a B.S. Degree in Business Administration, with a major in Accounting from Johnson C. Smith University in 1976. From February 1979 to October 2004, I was employed as an auditor with the Public Service Commission of South Carolina (the "Commission") and participated in cases involving the regulation of gas, electric, telephone, water and wastewater utilities. In October 2004, I began employment as an Audit Manager with the Office of Regulatory Staff ("ORS").

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**THE OFFICE OF REGULATORY STAFF  
1441 Main Street, Suite 300, Columbia, SC 29201  
Post Office Box 11263, Columbia, SC 29211**

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
2 **PROCEEDING?**

3 **A.** The purpose of my testimony is to present the results of ORS Audit  
4 Staff's examination of Carolina Power & Light Company d/b/a Progress  
5 Energy Carolinas, Inc.'s ("the Company" or "Company") Fuel  
6 Adjustment Clause operation for the current review period of April 2005  
7 through June 2006 (Docket No. 2006-1-E). The findings of the  
8 examination are set forth below and in the exhibits attached to this  
9 testimony.

10 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**  
11 **TESTIMONY.**

12 **A.** I have attached the ORS Audit Report which includes Audit Exhibits  
13 JRC-1 through JRC-8. The contents of the Audit Report were either  
14 prepared by me or were prepared under my direction and supervision.

15 **Q. WHAT WAS THE PURPOSE OF YOUR AUDIT?**

16 **A.** ORS Audit Staff traced the fuel information as filed in the Company's  
17 required monthly reports to the Company's books and records. The  
18 current fuel review period covered the period April 2005 through June  
19 2006. However, the ORS Audit Staff was unable to examine the  
20 months of April, May and June 2006 because actual figures were not  
21 available. Estimated figures were used for those three months. The  
22 purpose of the examination was to determine whether the Company

1 had computed and applied the monthly Fuel Adjustment Clause in  
2 accordance with the S.C. Code Ann. §58-27-865 (Supp. 2005). To  
3 accomplish this task, ORS examined the components surrounding the  
4 operation of the clause.

5 **Q. WHAT WAS THE SCOPE OF ORS' EXAMINATION?**

6 **A.** The examination consisted of:

- 7 1. Analyzing the Fuel Stock Account – Account # 151
- 8 2. Sampling Receipts to the Fuel Stock Account – Account # 151
- 9 3. Verifying Charges to Nuclear Fuel Expense - Account # 518
- 10 4. Verifying Purchased & Interchange Power Fuel Costs
- 11 5. Verifying KWH Sales
- 12 6. Comparison of Coal Costs
- 13 7. Recalculating the Fuel Costs Adjustment Factors and Verifying  
14 the Unbilled Revenue
- 15 8. Recalculating the True-up for the Over/Under-Recovered Fuel  
16 Costs
- 17 9. Analyzing Spot Coal Purchasing Procedures

18 **Q. PLEASE ELABORATE ON ORS AUDIT STAFF'S COMPUTATION OF**  
19 **THE TRUE-UP OF OVER/UNDER-RECOVERED FUEL COSTS.**

20 **A.** The ORS Audit Staff analyzed the cumulative over/under-recovery of  
21 fuel costs that the Company incurred for the period April 2005 through  
22 March 2006. The cumulative under-recovery amount totaled  
23 (\$32,368,519). ORS then added the projected over-recovery of  
24 \$1,538,059 for the month of April 2006, the projected under-recovery of  
25 (\$906,213) for the month of May 2006 and the projected under-recovery

1 of (\$2,791,805) for June 2006 to arrive at a cumulative under-recovery  
2 of (\$34,528,478). The Company's prefiled testimony in this docket  
3 states the Company's cumulative under-recovery as of June 2006 totals  
4 (\$34,576,803). (See Barkley Exhibit No. 7). The difference between the  
5 Company's and ORS' cumulative under-recovery, as of June 2006,  
6 totals \$48,325, which will be discussed later in this testimony.

7 ORS' cumulative under-recovery of fuel costs as of actual March 2006  
8 totaled (\$32,368,519). The Company's prefiled testimony in this docket  
9 also lists the cumulative under-recovery total as of actual March 2006  
10 totaling (\$32,368,519) (See Barkley Exhibit No. 5). ORS Audit Exhibit  
11 JRC-7, entitled "South Carolina Fuel Cost Computation" provides  
12 explanations for the ORS cumulative under-recovery balance as of  
13 March 2006, and as of June 2006.

14 As stated in the Company's Adjustment for Fuel Costs, fuel costs will be  
15 included in base rates to the extent determined reasonable and proper  
16 by the Commission. Based on the ORS Audit staff's calculation, the  
17 Company's under-recovery of fuel costs for the period July 1, 2006  
18 through June 30, 2007, totals (\$34,528,478).

19 **Q. PLEASE DESCRIBE THE ORS AUDIT STAFF'S EXHIBITS.**

20 **A.** ORS prepared exhibits from the Company's books and records  
21 reflecting fuel costs during the review period. Specifically, these  
22 exhibits include the following:

- 1        Audit Exhibit JRC-1: Coal Cost Statistics
- 2        Audit Exhibit JRC-2: Received Coal-Cost Per Ton (Per Plant)
- 3        Audit Exhibit JRC-3: Received Coal-Cost Per Ton Comparison
- 4        Audit Exhibit JRC-4: Coal Fuel Stocks
- 5        Audit Exhibit JRC-5: Total Burned Cost (Fossil and Nuclear)
- 6        Audit Exhibit JRC-6: Cost of Fuel
- 7        Audit Exhibit JRC-7: South Carolina Fuel Cost Computation
- 8        Audit Exhibit JRC-8: Avoided Cost Adjustment

9    **Q.    DID YOU NOTE ANY DIFFERENCES BETWEEN ORS'**  
10        **CALCULATION OF THE UNDER-COLLECTION AND THE**  
11        **COMPANY'S?**

12   **A.**    Yes, I did. Each of the differences identified is described in one of three  
13        footnotes to Audit Exhibit JRC-7 of the Report of the ORS Audit  
14        Department in this docket.

15   **Q.    PLEASE EXPLAIN FOOTNOTE (1) TO ORS AUDIT EXHIBIT JRC-7.**

16   **A.**    The first footnote addresses ORS Audit Staff's cumulative under-  
17        recovery balance brought forward from March 2005 of (\$27,537,237),  
18        as reflected on this exhibit. ORS Audit Staff's calculations differ from  
19        the Company's beginning cumulative under-recovery balance from  
20        March 2005 of (\$30,041,333) by \$2,504,096 (See Docket No. 2005-1-E,  
21        Barkley Exhibit No. 2). This beginning cumulative difference is based  
22        on the ORS corrections from the last fuel review period which reflected

1       ORS adjustments to various Purchase Power Costs and an adjustment  
2       resulting from a FERC Settlement with the Company. It should be  
3       noted that the Company, in its prefiled testimony in Docket No. 2006-1-  
4       E, has included this true-up in a May 2005 accounting adjustment of  
5       \$5,378,318 to the Deferred Fuel Account (Barkley Exhibit No. 5). The  
6       remainder of the \$5.4 million, \$2,874,222, will be discussed further in  
7       ORS Footnote (3).

8   **Q.    PLEASE EXPLAIN FOOTNOTE (2) TO ORS AUDIT EXHIBIT JRC-7.**

9   **A.**   The second footnote addresses ORS Audit Staff's adjustments to the  
10       Company's Purchased Power Costs, on a total system basis. ORS  
11       Audit Staff's Purchased Power figures for April 2005 through March  
12       2006 and the resultant over/under-recovery monthly deferred fuel  
13       amounts for April 2005 through March 2006 reflects ORS' compliance  
14       with the fuel statute, S.C. Code Ann. §58-27-865 (Supp. 2005). This  
15       statute addresses "fuel costs related to purchased power." This statute  
16       provides that the fuel costs related to purchased power include the total  
17       delivered cost of economy purchases, including, but not limited to,  
18       transmission charges. This statute also defines economy purchases as  
19       purchases made to displace higher cost generation, at a price which is  
20       less than the purchasing utility's avoided variable costs for the  
21       generation of an equivalent quantity of electric power. After ORS  
22       applied this statute to the examined economic purchases along with the

1 applicable avoided costs, ORS Audit Staff's adjustment to Purchased  
2 Power Costs, on a total system basis, results in a reduction to those  
3 costs in the amount of (\$32,455). This figure reflects the usage of an  
4 avoided cost as a lesser price, at that point in time, over a purchase  
5 price.

6 The details of this (\$32,455) adjustment are provided in ORS Audit  
7 Exhibit JRC-8. The figures that comprise this adjustment's total and  
8 which are reflected in the various months of the review period, did not  
9 affect the actual fuel cost \$/KWH Sales for April 2005 through March  
10 2006.

11 **Q. PLEASE EXPLAIN FOOTNOTE (3) TO ORS AUDIT EXHIBIT JRC-7.**

12 **A.** Footnote (3) to Audit Exhibit JRC-7 explains that in May 2005 and  
13 August 2005, the Company had true-ups to the cumulative balances in  
14 the Deferred Fuel Account due to various Company corrections and  
15 revisions based on: (a) The 2005 Annual Fuel Review Settlement  
16 Agreement and an update of calculations on a FERC Settlement  
17 Agreement addressed in the last review period; and (b) the Norfolk  
18 Southern Railroad Settlement with the Surface Transportation Board  
19 ("STB"). As described in Footnote (3a), in May 2005, the Company's  
20 over-recovery adjustments to the Deferred Fuel Account totaled  
21 \$5,378,318 (consisting of \$2,504,097 + \$2,865,221 + \$9,000). In May  
22 2005, the portions of the over-recovery adjustments to the Deferred



1 Fuel Account that have not previously been adjusted by the ORS  
2 totaled \$2,874,222 (consisting of \$1 + \$2,865,221 + \$9,000). (See  
3 ORS Audit Exhibit JRC-7).

4 In May 2005, a portion of the \$5,378,318 booked to the Deferred Fuel  
5 Account was \$2,504,097 (reflected in the 2005 ORS Audit Report as  
6 \$2,504,096 in Docket No. 2005-1-E). It was not necessary for the  
7 ORS to make an adjustment of \$2,504,096 because the ORS figures  
8 already reflected this updated information (See Footnote (1) in ORS  
9 Audit Exhibit JRC-7). The \$1 difference is due to rounding. The  
10 remainder of the \$5.4 million amount dealt with two items: (1) in Docket  
11 No. 2005-1-E, the Settlement Agreement approved by the Commission  
12 excluded additional transmission costs for 1/04 through 3/05, which on  
13 a S.C. jurisdictional basis reflected an over-recovery adjustment of  
14 \$2,865,221. Therefore, the Company adjusted its Deferred Fuel  
15 Account for this amount; and (2) the Company booked an over-  
16 recovery adjustment for a calculation update to the FERC Settlement  
17 Agreement (this Agreement was addressed in the last review period)  
18 for an additional amount of \$9,000, on a S.C. jurisdictional basis.

19 As described in Footnote (3b), in August 2005, the Company booked a  
20 true-up to the cumulative balance of the Deferred Fuel Account for the  
21 S.C. jurisdictional portion of a Norfolk Southern Railroad Settlement  
22 with the STB concerning the payment of additional freight rate charges.

1 The S.C. portion of this over-recovery adjustment totaled \$412,794.  
2 ORS also agreed with this adjustment in Footnote (3b).

3 **Q. WHAT WAS THE CUMULATIVE EFFECT OF ORS' ADJUSTMENTS,**  
4 **ALONG WITH THE ESTIMATED MONTHS OF THE REVIEW**  
5 **PERIOD, ON THE COMPANY'S FUEL COST UNDER-RECOVERY?**

6 **A.** ORS' cumulative under-recovery of fuel costs as of actual March 2006  
7 totals (\$32,368,519). The Company's cumulative under-recovery total  
8 as of actual March 2006 totals (\$32,368,519). The difference between  
9 the Company's and ORS' cumulative under-recovery as of actual  
10 March 2006 is \$-0-. ORS' cumulative under-recovery of fuel costs as  
11 of June 2006 totals (\$34,528,478). The Company's cumulative under-  
12 recovery as of June 2006 totals (\$34,576,803). The difference  
13 between the Company's and ORS' cumulative under-recovery as of  
14 June 2006 totals \$48,325. This cumulative difference, as of June  
15 2006, is based on ORS and the Company reflecting different estimated  
16 figures for the estimated months of April 2006, May 2006 and June  
17 2006. ORS' estimated figures are based on updated estimates  
18 provided to the ORS Audit Department by the Company, as compared  
19 to the estimated figures in the Company's testimony in this Docket.  
20 (See Barkley Exhibit No. 7).

21 **Q. WHAT WAS THE RESULT OF THE ORS AUDIT DEPARTMENT'S**  
22 **EXAMINATION?**

1 **A.** Based on the ORS Audit Staff's examination of the Company's books and  
2 records, and its operation of the fuel cost recovery mechanism directed  
3 by the Commission, the ORS Audit Department is of the opinion that,  
4 subject to the adjustments presented in Footnotes (1) through (3), the  
5 Company's books and records accurately reflect the fuel costs incurred  
6 by the Company in accordance with previous Commission orders and  
7 with S.C. Code Ann. §58-27-865.

8 **Q. DO YOU SUPPORT THE SETTLEMENT AGREEMENT EXECUTED BY**  
9 **THE PARTIES IN THIS HEARING?**

10 **A.** Yes, I do.

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes, it does.

**REPORT OF THE AUDIT DEPARTMENT  
THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2006-1-E**

**CAROLINA POWER & LIGHT COMPANY  
d/b/a PROGRESS ENERGY CAROLINAS, INC.**

**REPORT OF THE AUDIT DEPARTMENT**  
**DOCKET NO. 2006-1-E**  
**CAROLINA POWER & LIGHT COMPANY**  
**d/b/a PROGRESS ENERGY CAROLINAS, INC.**  
**ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS**

**ANALYSIS**

The Office of Regulatory Staff (ORS) Audit Department has made an examination of the books and records of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (hereinafter referred to as "the Company" or "PEC") pursuant to the requirements under Docket No. 2006-1-E and S.C. Code Ann. §58-27-865, that periodic hearings be conducted before the Commission concerning the Adjustment of Base Rates for Fuel Costs.

The current examination of PEC's Retail Fuel Adjustment Clause covered the period of April 2005 through June 2006. However, the ORS Audit Department did not examine the months of April, May, and June 2006 because the per book figures were not available during the audit. The amounts of over/under-recovery for April 2006, May 2006 and June 2006 were estimated for the purpose of adjusting base rates effective July 1, 2006. The estimates for these three months will be subject to true-up at the Company's next hearing.

The ORS Audit Department's examination consisted of the following:

1. Analyzing the Fuel Stock Account - Account # 151
2. Sampling Receipts to the Fuel Stock Account --Account #151
3. Verifying Charges to Nuclear Fuel Expense --- Account # 518
4. Verifying Purchased and Interchange Power Fuel Costs
5. Verifying KWH Sales
6. Comparison of Coal Costs
7. Recalculating the Fuel Costs Adjustment Factors and Verifying Unbilled Revenue
8. Recalculating the True-up for the Over/Under-Recovered Fuel Costs
9. Analysis of Spot Coal Purchasing Procedures

#### **1. ANALYZING THE FUEL STOCK ACCOUNT - ACCOUNT # 151**

ORS' analysis of the Fuel Stock Account consisted of tracing receipts and issues from the fuel management system to the General Ledger, reviewing monthly journal entries originating in fuel accounting, and ensuring that only proper charges are entered in the Company's computation of fuel costs for purposes of adjusting base rates for fuel costs.

#### **2. SAMPLING RECEIPTS TO THE FUEL STOCK ACCOUNT-- ACCOUNT #151**

ORS' sample of coal receipts to the Fuel Stock Account consisted of randomly selecting transactions and tracing each of these randomly selected transactions to a waybill or truck bill, supplier voucher, and a freight voucher for documentation purposes. It also consisted of recalculating the transactions to insure mathematical accuracy.

### **3. VERIFYING CHARGES TO NUCLEAR FUEL EXPENSE - ACCOUNT # 518**

ORS traced the expense amounts for nuclear fuel to the books and records for the period April 2005 through March 2006 to verify the accuracy of the expenses to fuel amortization schedules.

### **4. VERIFYING PURCHASED AND INTERCHANGE POWER FUEL COSTS**

ORS performed an examination of the Company's purchased and interchange power amounts used in the Fuel Adjustment Clause (FAC) for the period April 2005 through March 2006.

ORS obtained the detail of the purchases and sales made by PEC to and from other electric utilities. ORS verified the amounts that are being used in computing total fuel costs for each month. These details allowed the ORS to identify fuel costs that are being passed through the clause in computing the factor above or below the base for each period. See ORS' Exhibit JRC-6 for details.

ORS' Purchased Power figures for April 2005 through March 2006 and the resultant over/under-recovery monthly deferred fuel amounts for April 2005 through March 2006 reflect calculations which comply with S.C. Code Ann. §58-27-865. This statute addresses "fuel costs related to purchased power." Subsection (A)(2)(b) of this statute states that the total delivered cost of economy purchases, including (but not limited to) transmission charges, could be included in Purchased Power Costs if those types of purchases were proven to be less than the purchasing utility's avoided variable costs for the generation of an equivalent quantity of electric power. After ORS applied this statute to the examined economic purchases along with the applicable avoided costs, ORS' adjustment to Purchased Power

Costs, on a total system basis, was a reduction of (\$32,455). This figure reflects the usage of an avoided cost as a lesser price, at that point in time, over a purchase price.

ORS traced the sales and purchases transactions for April 2005 through March 2006 to the Company's sales and purchases monthly reports and, on a sample basis, traced to monthly invoices. ORS recomputed the sales and purchases.

## **5. VERIFYING KWH SALES**

ORS verified total system sales, as filed in the monthly fuel factor computation, for the months of April 2005 through March 2006. This monthly figure was then used to determine the fuel cost per KWH sold.

## **6. COMPARISON OF COAL COSTS**

ORS prepared exhibits based upon information obtained from PEC's books and records reflecting coal costs during the review period. Specifically, these exhibits are as follows:

### **Audit Exhibit JRC-1: COAL COST STATISTICS**

### **Audit Exhibit JRC-2: RECEIVED COAL-COST PER TON (PER PLANT)**

### **Audit Exhibit JRC-3: RECEIVED COAL-COST PER TON COMPARISON**

Audit Exhibit JRC-1, titled Coal Cost Statistics, provides a detailed analysis of spot and contract coal for the twelve (12) months ended March 2006. Additionally, the Weighted Average of Coal Received is reflected in Audit Exhibit JRC-1 for the twelve-month period. Total costs for the twelve-month period were divided by the total tons for the twelve-month period in arriving at the average costs per ton received of \$68.70.

Audit Exhibit JRC-2, titled Received Coal-Cost Per Ton (Per Plant), reflects the overall cost per ton of coal by month per plant.



Audit Exhibit JRC-3, titled Received Coal-Cost Per Ton Comparison, reflects the overall cost per ton of coal by month for the three major electric utilities regulated by this Commission.

## **7. RECALCULATING THE FUEL COSTS ADJUSTMENT FACTORS AND**

### **VERIFYING UNBILLED REVENUES**

ORS recalculated the Fuel Costs Adjustment Factors for the months of April 2005 through March 2006 utilizing information obtained from the Company's records.

With reference to fuel cost, ORS verified the Total Fuel Costs for the months of April 2005 through March 2006 to the Company's books and records.

In recalculating the monthly factors, ORS divided the Total Cost of Fuel Burned by Total System Sales to arrive at fuel costs per KWH sales. The base fuel cost per KWH, included in the base rates, is then subtracted from the fuel cost per KWH sales and the resulting figure represents the fuel cost adjustment above or below base per KWH sales. The South Carolina Retail Jurisdictional KWH deferrals were checked against the Company's records. The actual Unbilled Revenue for each month was verified to the Company's books and records.

## **8. RECALCULATING THE TRUE-UP FOR THE OVER/UNDER-RECOVERED**

### **FUEL COSTS**

ORS analyzed the cumulative under-recovery of fuel costs that the Company had incurred for the period April 2005 through March 2006 totaling (\$32,368,519). ORS added the projected over-recovery of \$1,538,059 for the month of April 2006, the projected under-recovery of (\$906,213) for the month of May 2006, and the projected under-recovery of (\$2,791,805) for the month of June 2006 to arrive at a cumulative under-recovery of

(\$34,528,478) as of June 2006. The Company's cumulative under-recovery, per its testimony in Docket No. 2006-1-E, as of March 2006 totals (\$32,368,519) and as of June 2006, the cumulative under-recovery totals (\$34,576,803). The difference between the Company's and the ORS' cumulative under-recovery as of actual March 2006 is \$-0-. The difference between the Company's and ORS' cumulative under-recovery, as of June 2006, totals \$48,325. This cumulative difference, as of June 2006, is based on ORS and the Company reflecting different estimated figures for the estimated months of April 2006, May 2006 and June 2006. ORS estimated figures are based on updated estimates provided to ORS by the Company, as compared to the estimated figures in the Company's testimony, Barkley Exhibit No. 7. ORS Audit Exhibit JRC-7, South Carolina Fuel Cost Computation, consisting of 4 pages, provides the explanation for any cumulative under-recovery difference as of March 2006 and provides the explanation for the estimated months.

As stated in the Company's S.C. Retail Adjustment for Fuel Costs Rider, fuel costs will be included in base rates to the extent determined reasonable and proper by the Commission.

Accordingly, the Commission should consider the under-recovery of (\$34,528,478) along with the anticipated fuel costs for the period July 1, 2006 through June 30, 2007, for the purpose of determining the base cost of fuel in base rates effective July 1, 2006.

#### **9. ANALYSIS OF SPOT COAL PURCHASING PROCEDURES**

ORS examined the procedure followed by the Company's fossil fuel area, the Regulated Fuels Department, for obtaining and accepting bids on spot coal. The Regulated Fuels Department maintains a list of coal vendors (suppliers) from whom bids are solicited as needed. When bids are requested, the Regulated Fuels Department's procurement section

electronically mails each of these coal vendors a Coal Quotation Form and letter requesting bids. In order for a coal vendor's name to be on this mailing list, the coal vendor must possess the necessary financial, technical, and business resources to supply coal consistent with the Company's requirements.

The Coal Quotation Forms require information such as the name of the coal company (the supplier), the name of the producer, the name of the mine, the number of tons offered, coal specifications, price per ton, the month(s) the shipment will be made, mining methods of the producer, and shipping transportation data. It should be noted that these solicitation letters and Coal Quotation Forms, based on whether a coal vendor has any coal to sell, are sent to the suppliers when there are near-term needs (one to twelve months) for coal.

If the Company decides to purchase spot coal in a given month, after reviewing their spot coal requirements, then all the bids received are evaluated. The Company normally requires all bids to be made on Coal Quotation Forms or are OTC bids. For evaluation purposes, an economic analysis is performed, and then an optimization model is run. This is in addition to recommending the distribution of the coal to the plants to ensure compliance with sulfur limitations imposed by state and federal regulations, as well as to exclude any coal that may exceed other environmental and generating unit constraints.

The Company's coal procurement personnel consider at least three factors when they evaluate the coal bids: (a) cost of the delivered coal on a cents/mmmbtu basis (including freight), (b) the BTU, ash, moisture, volatiles, grindability, ash softening temperature, sulfur and nitrous oxide (NO<sub>x</sub>) content of the coal offered (for operational and environmental purposes), and (c) the past performance of the supplier and the coal obtained from the producer. The Company's

coal procurement personnel determine the current market price for coal prior to negotiating with the coal vendors over their bids. In this way, the coal procurement personnel determine the limits they should stay within when bargaining for coal. The coal procurement personnel bargain over the price of the coal as well as other possible terms and conditions of a prospective purchase. Coal procurement personnel will either accept or reject the coal vendor's offer or make a counter-offer to the vendor's offer.

Upon agreement on a coal purchase, the Regulated Fuels Department executes a contract. Both parties sign the contract. The coal vendor takes samples of coal according to ASTM Standards. The samples are sent to an independent fuel laboratory which analyzes each spot coal shipment for BTU, ash, moisture, sulfur and NOx content, and periodically analyzes coal for volatiles, grindability, and ash softening temperature. The coal analysis results are entered into the computerized Fuel Management System, which is used by the Regulated Fuels Department to monitor coal receipts and to process coal payments. The appropriate premium or penalty on the coal purchased is determined by the Regulated Fuels Department through the Fuel Management System which adds a premium or assesses a penalty to the total amount due to the coal vendor, and the results are forwarded to the Company's Accounting Department. The Regulated Fuels Department closely monitors the quality and reliability of coal shipped by various producers. If a certain producer renders poor performance, the coal procurement personnel consider this past performance when analyzing any future offers received from the supplier.

Occasionally, the Regulated Fuels Department receives unsolicited bids for the purchase of coal. The same procedure used for evaluating solicited bids is utilized when evaluating the

offer: determining the need for spot coal, cost, purchasing, sampling, and assessing penalties or premiums.

The Company's spot coal requirements are obtained through short-term commitments with terms that may range from one month to twelve months duration.

During the review period of April 2005 through March 2006, the Company accepted two (2) of twelve (12) total spot coal bid requests, with total accepted spot coal tons of 1,288,645. The actual amount of spot coal received for this period is reflected in ORS' Audit Exhibit JRC-1.

### **EXHIBITS**

Exhibits relative to this proceeding are identified as follows:

#### **AUDIT EXHIBIT JRC-1: COAL COST STATISTICS (AND WEIGHTED AVERAGE OF COAL RECEIVED)**

In Audit Exhibit JRC-1, titled Coal Cost Statistics, ORS compares spot and contract coal received for the period April 2005 through March 2006. The comparison is made in the following five (5) areas:

- (1) Tons Received
- (2) Percentage of Total Tons Received
- (3) Received Cost Per Ton
- (4) Total Received Cost
- (5) Cost Per MBTU

This exhibit also reflects the total spot and contract tons received during the period April 2005 through March 2006. ORS has taken the total received cost for the twelve (12) months and divided this by the total tons for the twelve (12) months in arriving at a Weighted Average

Cost per ton for the twelve (12)-month period.

**AUDIT EXHIBIT JRC-2: RECEIVED COAL-COST PER TON (PER PLANT)**

This exhibit shows the received cost per ton for coal at each of PEC's plants for the period from April 2005 through March 2006, in dollars per ton including freight costs.

**AUDIT EXHIBIT JRC-3: RECEIVED COAL-COST PER TON COMPARISON**

This exhibit reflects the received cost per ton for coal for each month from April 2005 through March 2006 for PEC, Duke Power Company and South Carolina Electric & Gas Company. ORS has shown, for comparison purposes, the invoice cost per ton, freight cost per ton, total cost per ton and the cost per MBTU.

**AUDIT EXHIBIT JRC-4: COAL FUEL STOCKS—NUMBER OF DAYS OF SUPPLY  
(ALL PLANTS)**

This exhibit reflects PEC's coal inventory in terms of tons received, consumed, and on hand at the end of the month. The number of days of supply is also shown.

**AUDIT EXHIBIT JRC-5: TOTAL BURNED COST (FOSSIL AND NUCLEAR)**

This exhibit reflects the per book cost of burned fuel, including emission allowance expenses, used for generation for the period April 2005 through March 2006. The burned cost of each class of fuel is shown separately.

**AUDIT EXHIBIT JRC-6: COST OF FUEL**

In Audit Exhibit JRC-6, ORS has computed the total fuel cost applicable to the factor computation. There are three (3) components used in arriving at this cost. These components are as follows:

- (1) Cost of Fuel Burned

(2) Purchase Power Cost

(3) Fuel Cost Recovered through Intersystem Sales

**Cost of Fuel Burned---**This amount is the burned cost of all fossil and nuclear fuel burned during the period. The costs associated with emission allowances are also reflected. A detail breakdown of coal, oil, gas, emission allowances and nuclear fuel can be seen in Audit Exhibit JRC-5.

**Purchase Power Cost---** This amount is the monthly kilowatt hours received by one electric utility from another electric utility and/or power marketer.

**Fuel Cost Recovered through Intersystem Sales---** This amount is the fuel-related cost of KWH's sold during the period to another electric utility and/or power marketer.

Total fuel cost applicable to the factor is computed by adding the cost of fuel burned to purchase power cost. This amount is then reduced by fuel associated with intersystem sales.

#### **AUDIT EXHIBIT JRC-7: S.C. FUEL COSTS COMPUTATION**

Shown in this exhibit are the actual costs for April 2005 through March 2006 and the estimated fuel costs for April, May and June 2006.

#### **AUDIT EXHIBIT JRC-8: AVOIDED COST ADJUSTMENT**

This exhibit provides the details of ORS' calculations for the adjustments made to the Company's Purchase Power Costs, on a total system basis, for the review period of April 2005 through March 2006. ORS calculated avoided cost adjustments related to purchase power transactions which totaled (\$32,455).

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.**  
**Coal Cost Statistics**  
**April 2005 - March 2006**

**SPOT**

<u>Month</u>	<u>Tons Received</u>	<u>Percent of Combined Monthly Total</u>	<u>Cost/Tons Received</u>	<u>Total Received Cost</u>	<u>\$/MBTU</u>
	Tons	%	\$	\$	\$
Apr-05	280,838	24.53%	73.21	20,560,524	2.9012
May-05	141,109	16.24%	76.42	10,784,033	3.3090
Jun-05	212,842	19.48%	77.50	16,495,236	3.0746
Jul-05	181,754	16.35%	79.32	14,415,901	3.1735
Aug-05	134,373	10.38%	77.15	10,367,249	3.0216
Sep-05	163,558	13.16%	73.08	11,952,703	2.9134
Oct-05	127,288	12.49%	74.53	9,487,257	2.9666
Nov-05	118,932	10.18%	73.90	8,789,171	2.9576
Dec-05	72,486	8.37%	76.94	5,576,743	3.0423
Jan-06	76,333	7.05%	80.88	6,173,925	3.2433
Feb-06	66,417	7.18%	80.11	5,320,918	3.2689
Mar-06	47,996	4.32%	83.74	4,019,385	3.3979
<b>Total</b>	<b>1,623,926</b>			<b>123,943,045</b>	

**CONTRACT**

<u>Month</u>	<u>Tons Received</u>	<u>Percent of Combined Monthly Total</u>	<u>Cost/Tons Received</u>	<u>Total Received Cost</u>	<u>\$/MBTU</u>
	Tons	%	\$	\$	\$
Apr-05	863,863	75.47%	65.23	56,346,960	2.6239
May-05	727,810	83.76%	65.25	47,486,144	2.6266
Jun-05	879,924	80.52%	69.49	61,144,405	2.8216
Jul-05	929,684	83.65%	61.59	57,262,872	2.4818
Aug-05	1,159,589	89.62%	66.37	76,960,980	2.6697
Sep-05	1,079,268	86.84%	64.25	69,345,039	2.5952
Oct-05	891,702	87.51%	72.91	65,009,636	2.9517
Nov-05	1,049,537	89.82%	63.97	67,139,720	2.5802
Dec-05	793,964	91.63%	67.00	53,196,734	2.7212
Jan-06	1,006,995	92.95%	70.50	70,989,132	2.8573
Feb-06	859,029	92.82%	73.56	63,193,445	2.9756
Mar-06	1,063,577	95.68%	71.62	76,171,909	2.8930
<b>Total</b>	<b>11,304,942</b>			<b>764,246,976</b>	



Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.  
Coal Cost Statistics  
April 2005 - March 2006

**COMBINED**

<u>Month</u>	<u>Tons Received</u>	<u>Percent of Combined Monthly Total</u>	<u>Cost/Tons Received</u>	<u>Total Received Cost</u>	<u>\$/MBTU</u>
	Tons	%	\$	\$	\$
Apr-05	1,144,701	100.00%	67.19	76,907,484	2.6927
May-05	868,919	100.00%	67.06	58,270,177	2.7308
Jun-05	1,092,766	100.00%	71.05	77,639,641	2.8719
Jul-05	1,111,438	100.00%	64.49	71,678,773	2.5956
Aug-05	1,293,962	100.00%	67.49	87,328,229	2.7071
Sep-05	1,242,826	100.00%	65.41	81,297,742	2.6375
Oct-05	1,018,990	100.00%	73.11	74,496,893	2.9536
Nov-05	1,168,469	100.00%	64.98	75,928,891	2.6188
Dec-05	866,450	100.00%	67.83	58,773,477	2.7488
Jan-06	1,083,328	100.00%	71.23	77,163,057	2.8849
Feb-06	925,446	100.00%	74.03	68,514,363	2.9965
Mar-06	1,111,573	100.00%	72.14	80,191,294	2.9147
<b>Total</b>	<b>12,928,868</b>			<b>888,190,021</b>	

**Total Received Cost = \$ 888,190,021 = \$ 68.70**

**Total Tons Received = 12,928,868**

**Note: Exhibit prepared by the ORS Audit Staff.**

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.**  
**Received Coal - Cost Per Ton (Per Plant)**  
**April 2005 - March 2006**

Plant	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Asheville	76.84	73.19	71.51	70.83	75.16	70.42	72.39	79.09	74.46	81.30	83.20	82.71
Cape Fear	54.21	57.95	64.57	49.10	56.41	55.31	57.79	57.20	64.69	57.77	59.53	62.73
Lee	62.21	50.61	53.50	54.53	56.83	48.49	5081.33 **	52.63	47.75	58.71	58.35	72.12
Mayo	74.42	68.74	77.73	70.27	71.98	71.75	75.71	77.44	75.70	73.92	76.17	77.44
Robinson	63.34	56.26	59.80	55.19	56.51	55.18	70.04	73.09	60.08	68.41	73.33	66.53
Roxboro 1-3	65.52	69.92	75.88	64.07	71.01	65.33	67.53	63.49	77.27	71.83	75.98	69.35
Roxboro 4	70.52	75.65	76.93	71.57	72.72	73.93	86.47	74.78	54.80	82.29	77.22	81.20
Sutton	64.91	71.15	62.47	59.01	51.51	64.11	81.00	54.49	65.33	67.74	72.87	69.99
Weatherspoon	67.23	67.38	61.57	76.40	64.20	66.81	68.35	62.48	63.94	67.36	75.97	69.79
<b>System Total</b>	<b>67.19</b>	<b>67.06</b>	<b>71.05</b>	<b>64.49</b>	<b>67.49</b>	<b>65.41</b>	<b>73.11</b>	<b>64.98</b>	<b>67.83</b>	<b>71.23</b>	<b>74.03</b>	<b>72.14</b>

**\*\* Note:** Includes various received cost adjustments against a small quantity of received tons (approximately 113 tons) which distorted the Received Cost Per Ton.

**Note:** Exhibit prepared by the ORS Audit Staff.

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.**  
**Received Coal - Cost Per Ton Comparison**  
**April 2005 - March 2006**

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.**

<b><u>Month</u></b>	<b><u>Invoice Cost</u></b> <b><u>Per Ton</u></b>	<b><u>Freight Cost</u></b> <b><u>Per Ton</u></b>	<b><u>Total Cost</u></b> <b><u>Per Ton</u></b>	<b><u>Cost</u></b> <b><u>Per MBTU</u></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Apr-05	48.03	19.16	67.19	2.6927
May-05	47.41	19.65	67.06	2.7308
Jun-05	49.55	21.50	71.05	2.8719
Jul-05	46.65	17.84	64.49	2.5956
Aug-05	50.49	17.00	67.49	2.7071
Sep-05	47.50	17.91	65.41	2.6375
Oct-05	51.64	21.47	73.11	2.9536
Nov-05	46.74	18.24	64.98	2.6188
Dec-05	49.02	18.81	67.83	2.7488
Jan-06	50.83	20.40	71.23	2.8849
Feb-06	53.97	20.06	74.03	2.9965
Mar-06	52.30	19.84	72.14	2.9147

**Duke Power Company**

<b><u>Month</u></b>	<b><u>Invoice Cost</u></b> <b><u>Per Ton</u></b>	<b><u>Freight Cost</u></b> <b><u>Per Ton</u></b>	<b><u>Total Cost</u></b> <b><u>Per Ton</u></b>	<b><u>Cost</u></b> <b><u>Per MBTU</u></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Apr-05	37.29	18.69	55.98	2.2454
May-05	37.80	17.63	55.43	2.2832
Jun-05	40.33	18.62	58.95	2.3457
Jul-05	36.35	18.76	55.11	2.2728
Aug-05	39.32	18.51	57.83	2.4731
Sep-05	38.54	9.92	48.46	2.0194
Oct-05	38.93	18.58	57.51	2.3871
Nov-05	38.84	20.09	58.93	2.5135
Dec-05	39.91	19.21	59.12	2.4599
Jan-06	47.56	21.22	68.78	2.8389
Feb-06	42.07	17.85	59.92	2.4754
Mar-06	47.06	18.12	65.18	2.6835

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.  
 Received Coal - Cost Per Ton Comparison  
 April 2005 - March 2006**

**South Carolina Electric & Gas Company**

<b><u>Month</u></b>	<b><u>Invoice Cost Per Ton</u></b>	<b><u>Freight Cost Per Ton</u></b>	<b><u>Total Cost Per Ton</u></b>	<b><u>Cost Per MBTU</u></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Apr-05</b>	<b>46.79</b>	<b>13.81</b>	<b>60.60</b>	<b>2.3990</b>
<b>May-05</b>	<b>44.95</b>	<b>13.85</b>	<b>58.80</b>	<b>2.3278</b>
<b>Jun-05</b>	<b>46.56</b>	<b>15.36</b>	<b>61.92</b>	<b>2.4429</b>
<b>Jul-05</b>	<b>46.09</b>	<b>13.88</b>	<b>59.97</b>	<b>2.3723</b>
<b>Aug-05</b>	<b>47.54</b>	<b>13.70</b>	<b>61.24</b>	<b>2.4209</b>
<b>Sep-05</b>	<b>46.86</b>	<b>13.45</b>	<b>60.31</b>	<b>2.3682</b>
<b>Oct-05</b>	<b>48.19</b>	<b>15.01</b>	<b>63.20</b>	<b>2.5476</b>
<b>Nov-05</b>	<b>48.51</b>	<b>13.93</b>	<b>62.44</b>	<b>2.4553</b>
<b>Dec-05</b>	<b>46.33</b>	<b>15.43</b>	<b>61.76</b>	<b>2.4826</b>
<b>Jan-06</b>	<b>47.81</b>	<b>14.91</b>	<b>62.72</b>	<b>2.4344</b>
<b>Feb-06</b>	<b>51.98</b>	<b>12.98</b>	<b>64.96</b>	<b>2.5574</b>
<b>Mar-06</b>	<b>48.75</b>	<b>14.63</b>	<b>63.38</b>	<b>2.5429</b>

**Note: Exhibit prepared by the ORS Audit Staff.**

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.**  
**Coal Fuel Stocks**  
**April 2005 - March 2006**

<b><u>Month</u></b>	<b><u>Tons Beginning of Month</u></b>	<b><u>Tons Received During Month</u></b>	<b><u>Tons Consumed During Month</u></b>	<b><u>Balance End of Month</u></b>	<b><u>Number of Days of Supply</u></b>
Apr-05	1,212,797	1,144,701	853,083	1,504,415	37
May-05	1,504,415	868,919	780,011	1,593,323	39
Jun-05	1,593,323	1,092,766	1,002,596	1,683,493	42
Jul-05	1,683,493	1,111,438	1,198,303	1,596,628	40
Aug-05	1,596,628	1,293,962	1,230,027	1,660,563	42
Sep-05	1,660,563	1,242,826	1,079,386	1,824,003	46
Oct-05	1,824,003	1,018,990	1,006,626	1,836,367	46
Nov-05	1,836,367	1,168,469	932,201	2,072,635	52
Dec-05	2,072,635	866,450	1,195,815	1,743,270	44
Jan-06	1,743,270	1,083,328	970,082	1,856,516	47
Feb-06	1,856,516	925,446	1,032,784	1,749,178	44
Mar-06	1,749,178	1,111,573	1,084,473	1,776,278	45

**Note: Exhibit prepared by the ORS Audit Staff.**

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.**  
**Total Burned Cost (Fossil and Nuclear) \***  
**April 2005 - March 2006**

<u>Month</u>	<u>Coal</u>	<u>Oil</u>	<u>Natural Gas</u>	<u>Emission Allowances</u>	<u>Nuclear Fuel</u>	<u>Total Burned Cost</u>
	\$	\$	\$	\$	\$	\$
Apr-05	56,159,773	783,165	12,690,084	1,903,148	7,620,392	79,156,562
May-05	52,747,177	849,577	6,157,257	(114,576)	9,408,169	69,047,604
Jun-05	66,863,240	652,500	12,559,469	2,255,679	9,429,852	91,760,740
Jul-05	79,154,219	2,006,585	41,343,851	2,403,386	9,396,051	134,304,092
Aug-05	81,639,591	2,545,985	50,699,903	2,760,811	8,875,065	146,521,355
Sep-05	70,744,495	2,004,150	36,030,427	2,405,821	8,654,319	119,839,212
Oct-05	67,533,912	790,920	12,720,852	2,103,493	8,296,591	91,445,768
Nov-05	63,589,197	1,106,486	6,545,067	1,959,606	9,811,136	83,011,492
Dec-05	80,928,870	3,409,098	21,184,883	2,517,400	9,907,441	117,947,692
Jan-06	67,034,734	683,722	6,034,314	1,736,182	10,203,218	85,692,170
Feb-06	71,554,326	1,060,033	4,334,020	1,816,566	9,245,693	88,010,638
Mar-06	76,662,807	955,210	15,245,990	1,970,214	7,811,107	102,645,328
<b>TOTALS</b>	<b>834,612,341</b>	<b>16,847,431</b>	<b>225,546,117</b>	<b>23,717,730</b>	<b>108,659,034</b>	<b>1,209,382,653</b>

\* Includes Emission Allowances

Note: Exhibit prepared by the ORS Audit Staff.

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.**  
**Cost of Fuel**  
**April 2005 - March 2006**

<u>Month</u>	<u>Total Cost of Fuel Burned</u>	<u>Purchased and Interchange Power Fuel Costs</u>	<u>Fuel Cost Recovered Intersystem Sales</u>	<u>Total Fuel Cost</u>
	\$	\$	\$	\$
Apr-05	79,156,562	10,056,053	(17,335,242)	71,877,373
May-05	69,047,604	5,405,639	(8,031,920)	66,421,323
Jun-05	91,760,740	13,887,320	(10,281,001)	95,367,059
Jul-05	134,304,092	25,937,272	(19,769,218)	140,472,146
Aug-05	146,521,355	43,893,455	(25,801,928)	164,612,882
Sep-05	119,839,212	20,870,268	(18,228,501)	122,480,979
Oct-05	91,445,768	7,350,545	(13,135,586)	85,660,727
Nov-05	83,011,492	4,026,835	(19,121,108)	67,917,219
Dec-05	117,947,692	8,370,198	(29,250,945)	97,066,945
Jan-06	85,692,170	7,044,436	(16,632,907)	76,103,699
Feb-06	88,010,638	7,115,101	(20,405,887)	74,719,852
Mar-06	102,645,328	7,634,947	(17,560,217)	92,720,058
<b>Total</b>	<b>1,209,382,653</b>	<b>161,592,069 (1)</b>	<b>(215,554,460)</b>	<b>1,155,420,262</b>

(1) See Audit Exhibit JRC-8 for details.

Note: Exhibit prepared by the ORS Audit Staff.

Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.  
South Carolina Fuel Cost Computation  
April 2005 - June 2006

	-----ACTUAL-----							
	April 2005	May 2005	June 2005	July 2005	August 2005	September 2005	October 2005	November 2005
Fossil Fuel	71,536,170	59,639,435	82,330,888	124,908,041	137,646,290	111,184,893	83,149,177	73,200,356
Nuclear Fuel	7,620,392	9,408,169	9,429,852	9,396,051	8,875,065	8,654,319	8,296,591	9,811,136
Purchased & Interchange Power (2)	10,056,053	5,405,639	13,887,320	25,937,272	43,893,455	20,870,268	7,350,545	4,026,835
Sub-Total	89,212,615	74,453,243	105,648,060	160,241,364	190,414,810	140,709,480	98,796,313	87,038,327
Less: Intersystem Sales	17,335,242	8,031,920	10,281,001	19,769,218	25,801,928	18,228,501	13,135,586	19,121,108
Total Fuel Costs	71,877,373	66,421,323	95,367,059	140,472,146	164,612,882	122,480,979	85,660,727	67,917,219
Total System KWH Sales								
Excluding Intersystem Sales (000's)	4,027,433	3,812,643	4,321,820	4,998,727	5,724,167	5,125,479	4,306,669	3,867,736
\$/KWH Sales	0.01785	0.01742	0.02207	0.02810	0.02876	0.02390	0.01989	0.01756
Less: Base Sales (\$/KWH)	0.01471	0.01471	0.01471	0.02200	0.02200	0.02200	0.02200	0.02200
Fuel Adjustment Per KWH	(0.00314)	(0.00271)	(0.00736)	(0.00610)	(0.00676)	(0.00190)	0.00211	0.00444
S.C. KWH Sales	595,849,090	525,062,896	599,052,091	657,012,345	731,975,843	704,401,122	588,096,714	527,743,322
Deferred Fuel Entry	(1,870,966)	(1,422,920)	(4,409,023)	(4,007,775)	(4,948,157)	(1,338,362)	1,240,884	2,343,180
Cumulative Over/(Under)								
Recovery - March 2005	(27,537,237) (1)							
Accounting Adjustments (3)		2,874,222			412,794			
Cumulative Over/(Under) Recovery	(29,408,203)	(27,956,901)	(32,365,924) **	(36,373,699)	(40,909,062)	(42,247,424)	(41,006,540)	(38,663,360)

**Please Note:**

In Audit Exhibit JRC-7, ORS reflects Over Recovery amounts without parentheses and (Under) Recovery amounts with parentheses.

\*Explanation of Footnotes (1) through (3) on Audit Exhibit JRC-7, Pages 3 and 4.

\*\* The Company's cumulative under-recovery balance for June 2005 is reflected as (\$32,365,925) {See Barkley Exhibit No.5}. The Company calculates its "Revenue Required" and "Revenue Billed" as separate line items to obtain its monthly deferred fuel entries.

Note: Exhibit prepared by the ORS Audit Staff.



Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.  
South Carolina Fuel Cost Computation  
April 2005 - June 2006

	-----ACTUAL-----				-----ESTIMATED-----		
	December 2005	January 2006	February 2006	March 2006	April 2006	May 2006	June 2006
Fossil Fuel	108,040,251	75,488,952	78,764,945	94,834,221	73,767,524	91,225,027	113,007,206
Nuclear Fuel	9,907,441	10,203,218	9,245,693	7,811,107	8,419,458	8,778,679	9,887,441
Purchased & Interchange Power (2)	8,370,198	7,044,436	7,115,101	7,634,947	6,305,683	7,623,553	15,216,303
Sub-Total	126,317,890	92,736,606	95,125,739	110,280,275	88,492,665	107,627,259	138,110,950
Less: Intersystem Sales	29,250,945	16,632,907	20,405,887	17,560,217	11,823,089	10,289,451	16,462,879
Total Fuel Costs	97,066,945	76,103,699	74,719,852	92,720,058	76,669,576	97,337,808	121,648,071
Total System KWH Sales							
Excluding Intersystem Sales (000's)	4,461,657	4,628,324	4,341,896	4,190,024	3,986,810	4,125,081	4,629,629
\$/KWH	0.02176	0.01644	0.01721	0.02213	0.01923	0.02360	0.02628
Less: Base Sales (\$/KWH)	0.02200	0.02200	0.02200	0.02200	0.02200	0.02200	0.02200
Fuel Adjustment Per KWH	0.00024	0.00556	0.00479	(0.00013)	0.00277	(0.00160)	(0.00428)
S.C. KWH Sales	573,412,625	608,165,682	594,662,360	558,556,296	555,256,000	566,383,000	652,291,000
Deferred Fuel Entry	137,619	3,381,401	2,848,433	(72,612)	1,538,059	(906,213)	(2,791,805)
November 2005 - (p. 1 of 4)	(38,663,360)						
Accounting Adjustments (3)							
Cumulative Over/(Under) Recovery	(38,525,741)	(35,144,340)	(32,295,907)	(32,368,519)	(30,830,460)	(31,736,673)	(34,528,478)

Please Note:

In Audit Exhibit JRC-7, ORS reflects Over Recovery amounts without parentheses and (Under) Recovery amounts with parentheses.

\*Explanation of Footnotes (1) through (3) on Audit Exhibit JRC-7, Pages 3 and 4.

Note: Exhibit prepared by the ORS Audit Staff.

**Carolina Power & Light Company  
d/b/a Progress Energy Carolinas, Inc.  
South Carolina Fuel Cost Computation  
April 2005 – June 2006**

**Explanation of Footnotes to Audit Exhibit JRC-7:**

- (1) ORS' cumulative under-recovery balance brought forward from March 2005 of (\$27,537,237), as reflected on this exhibit, differs from the Company's beginning cumulative under-recovery balance from March 2005 of (\$30,041,333) by \$2,504,096 {see PSC Docket No. 2005-1-E -- Barkley Exhibit No. 2}. This beginning cumulative difference is based on the ORS corrections from the last fuel review period which reflected ORS adjustments to various Purchase Power Costs and an adjustment for a FERC Settlement with the Company. It should be noted that the Company, in its testimony, has included this true-up in a May 2005 accounting adjustment of \$5,378,318 to the Deferred Fuel Account {see Docket No. 2006-1-E, Barkley Exhibit No. 5}. The remainder of the \$5.4 million, \$2,874,222, will be discussed in ORS Footnote (3).
- (2) ORS' Purchased Power figures for April 2005 through March 2006 and the resultant over/ under-recovery monthly deferred fuel amounts for April 2005 through March 2006 reflects ORS' compliance with the S.C. Fuel Statute (updated as of February 2004), S.C. Code Ann. §58-27-865. This Statute addresses "fuel costs related to purchased power." Sub-section (A)(2)(b) of the Statute states that the total delivered cost of economy purchases, including transmission charges, could be included in Purchased Power Costs if those types of purchases were proven to be less than the purchasing utility's avoided variable costs for the generation of an equivalent quantity of electric power. After ORS applied this Statute to the examined economic purchases along with the applicable avoided costs, ORS' adjustment to Purchased Power Costs, on a total system basis, results in a reduction to those costs in the amount of (\$32,455). This figure reflects the usage of an avoided cost as a lesser price, at that point in time, over a purchase price. The details of this (\$32,455) adjustment are provided in ORS Audit Exhibit JRC-8. It should be noted that the figures that comprise this adjustment's total and which are reflected in the various months of the review period, did not affect the actual fuel cost \$/KWH Sales for April 2005 through March 2006.
- (3) In May 2005 and August 2005, the Company had true-ups to the cumulative balances in the Deferred Fuel Account due to various Company corrections and revisions based on:  
(a) The 2005 PSC Annual Fuel Review with a resultant Settlement Agreement and an update of calculations on a FERC Settlement Agreement addressed in the last review period; and  
(b) A Norfolk Southern Railroad Settlement with the Surface Transportation Board (STB).

**Carolina Power & Light Company  
d/b/a Progress Energy Carolinas, Inc.  
South Carolina Fuel Cost Computation  
April 2005 – June 2006**

**Explanation of Footnotes to Audit Exhibit JRC-7:**

**(3) (Continued):**

(a) In May 2005, the Company's over-recovery adjustments to the Deferred Fuel Account totaled \$5,378,318 (consisting of \$2,504,097 + \$2,865,221 + \$9,000). In May 2005 as reflected on ORS Audit Exhibit JRC-7, the portions of the over-recovery adjustments to the Deferred Fuel Account that have not previously been adjusted by the ORS, which ORS also is in agreement, totaled \$2,874,222 (consisting of \$1 + \$2,865,221 + \$9,000).

In May 2005, a portion of the \$5,378,318 booked by the Company to the Deferred Fuel Account was \$2,504,097 (reflected in the last ORS Audit Report as \$2,504,096). It was not necessary for the ORS to make an adjustment of \$2,504,096 because the ORS figures already reflected this updated information {see Footnote (1)}. ORS is in agreement with the \$1 rounding difference. The remainder of the \$5.4 million amount dealt with two items: (1) Also in Docket No. 2005-1-E, a PSC Settlement Agreement excluded additional transmission costs for 1/04 through 3/05, which on a S.C. jurisdictional basis reflected an over-recovery adjustment of \$2,865,221. Therefore, the Company adjusted its Deferred Fuel Account for this amount; and (2) The Company booked an over-recovery adjustment for a calculation update to the FERC Settlement Agreement (the Agreement was addressed in the last review period) for an additional amount of \$9,000, on a S.C. jurisdictional basis.

(b) In August 2005, the Company booked a true-up to the cumulative balance of the Deferred Fuel Account for the S.C. jurisdictional portion of a Norfolk Southern Railroad Settlement with the STB concerning the payment of additional freight rate charges. The S.C. portion of this over-recovery adjustment totaled \$412,794. ORS also agreed with this adjustment.

**Summary:**

ORS' cumulative under-recovery of fuel costs as of actual March 2006 totaled (\$32,368,519). The Company's cumulative under-recovery total as of actual March 2006 totaled (\$32,368,519). The difference between the Company's and ORS' cumulative under-recovery as of actual March 2006 is \$-0-. ORS' cumulative under-recovery of fuel costs as of estimated June 2006 totaled (\$34,528,478). The Company's cumulative under-recovery total as of estimated June 2006 totaled (\$34,576,803). The difference between the Company's and ORS' cumulative under-recovery as of estimated June 2006 totals \$48,325. This cumulative difference, as of June 2006, is based on ORS and the Company reflecting different estimated figures for the estimated months of April 2006, May 2006 and June 2006. ORS estimated figures are based on updated estimated information provided to ORS by the Company, as compared to the estimated figures in the Company's testimony {see Barkley Exhibit No. 7}.

**Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.**  
**Avoided Cost Adjustment**  
**April 2005 - March 2006**

<u>Month</u>	<u>Company's Purchased Power</u>	<u>ORS's Avoided Cost Adjustment</u>	<u>ORS's Revised Purchased Power</u>
Apr-05	10,056,067	(14)	10,056,053
May-05	5,408,930	(3,291)	5,405,639
Jun-05	13,887,320	0	13,887,320
Jul-05	25,937,272	0	25,937,272
Aug-05	43,893,455	0	43,893,455
Sep-05	20,897,160	(26,892)	20,870,268
Oct-05	7,350,573	(28)	7,350,545
Nov-05	4,026,835	0	4,026,835
Dec-05	8,370,198	0	8,370,198
Jan-06	7,044,436	0	7,044,436
Feb-06	7,117,326	(2,225)	7,115,101
Mar-06	7,634,952	(5)	7,634,947
<b>Total</b>	<b>161,624,524</b>	<b>(32,455)</b>	<b>161,592,069</b>

**Note: Exhibit prepared by the ORS Audit Staff.**

Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.  
Avoided Cost Adjustment  
April 2005 - March 2006

<u>Month</u>	<u>Company/Type of Power</u>	<u>Avoided Cost</u>	<u>Average Energy Cost</u>	<u>Adjustment</u>
Apr-05	Company A - Generation	\$178	\$192	(\$14)
May-05	Company B - Open Tariff	\$123,565	\$125,800	(\$2,235)
	Company C - Open Tariff	\$6,136	\$7,192	(\$1,056)
		<u>\$129,701</u>	<u>\$132,992</u>	<u>(\$3,291)</u>
Jun-05	No Adjustment	\$0	\$0	\$0
Jul-05	No Adjustment	\$0	\$0	\$0
Aug-05	No Adjustment	\$0	\$0	\$0
Sep-05	Company A - Generation	\$57,237	\$59,185	(\$1,948)
	Company D - Open Tariff	\$208,656	\$233,600	(\$24,944)
		<u>\$265,893</u>	<u>\$292,785</u>	<u>(\$26,892)</u>
Oct-05	Company D - Open Tariff	\$3,496	\$3,524	(\$28)
Nov-05	No Adjustment	\$0	\$0	\$0
Dec-05	No Adjustment	\$0	\$0	\$0
Jan-06	No Adjustment	\$0	\$0	\$0
Feb-06	Company A - Generation	\$13,477	\$15,702	(\$2,225)
Mar-06	Company A - Generation	<u>\$2,796</u>	<u>\$2,801</u>	<u>(\$5)</u>
	Total Avoided Cost Adjustment	<u>\$415,541</u>	<u>\$447,996</u>	<u>(\$32,455)</u>

Note: Exhibit prepared by ORS Audit Staff

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2006-1-E**

IN RE:

Carolina Power & Light Company d/b/a       )  
Progress Energy Carolinas, Inc.               )       **CERTIFICATE OF SERVICE**  
Annual Review of Base Rates for Fuel Costs )

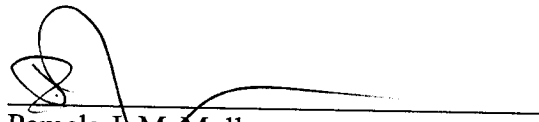
This is to certify that I, Pamela J. McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **TESTIMONY AND EXHIBITS OF A. RANDY WATTS AND JACQUELINE R. CHERRY** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

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Pamela J. McMullan

May 24, 2006  
Columbia, South Carolina

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To The Commission In Accordance With Its Electronic Filing  
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